

Comparison of JLBC Baseline and Executive Budget Proposals

**JLBC Staff
January 2006**

JLBC Has Already Provided An FY '07 General Fund Baseline Budget Estimate

- General Fund baseline represents a starting point for Legislative discussion.
- The Baseline is an estimate of statutory formulas and other obligations – but is not a complete budget.
- The Baseline did not include program expansions or reductions – those policy changes would be considered by the Legislature during the session.
- JLBC Baseline has \$850 M in net available resources – recommend allocating no more than \$368 M to on-going initiatives to prevent structural shortfall.

FY 2007 JLBC Baseline Estimate

\$850 M in Available Resources After Funding Formulas

REVENUE

New Revenue - \$1,454 M

*New Revenues of \$497 M +
Carry Forward of \$610 M +
Net One-Time Changes of \$347 M*

SPENDING

K-12 Operating and Capital Formula
\$242 M

Title 19/Health and Welfare Formula
\$255 M

Corrections/DJC - \$38 M

Higher Ed - \$15 M

Employee Health/Retirement - \$49 M

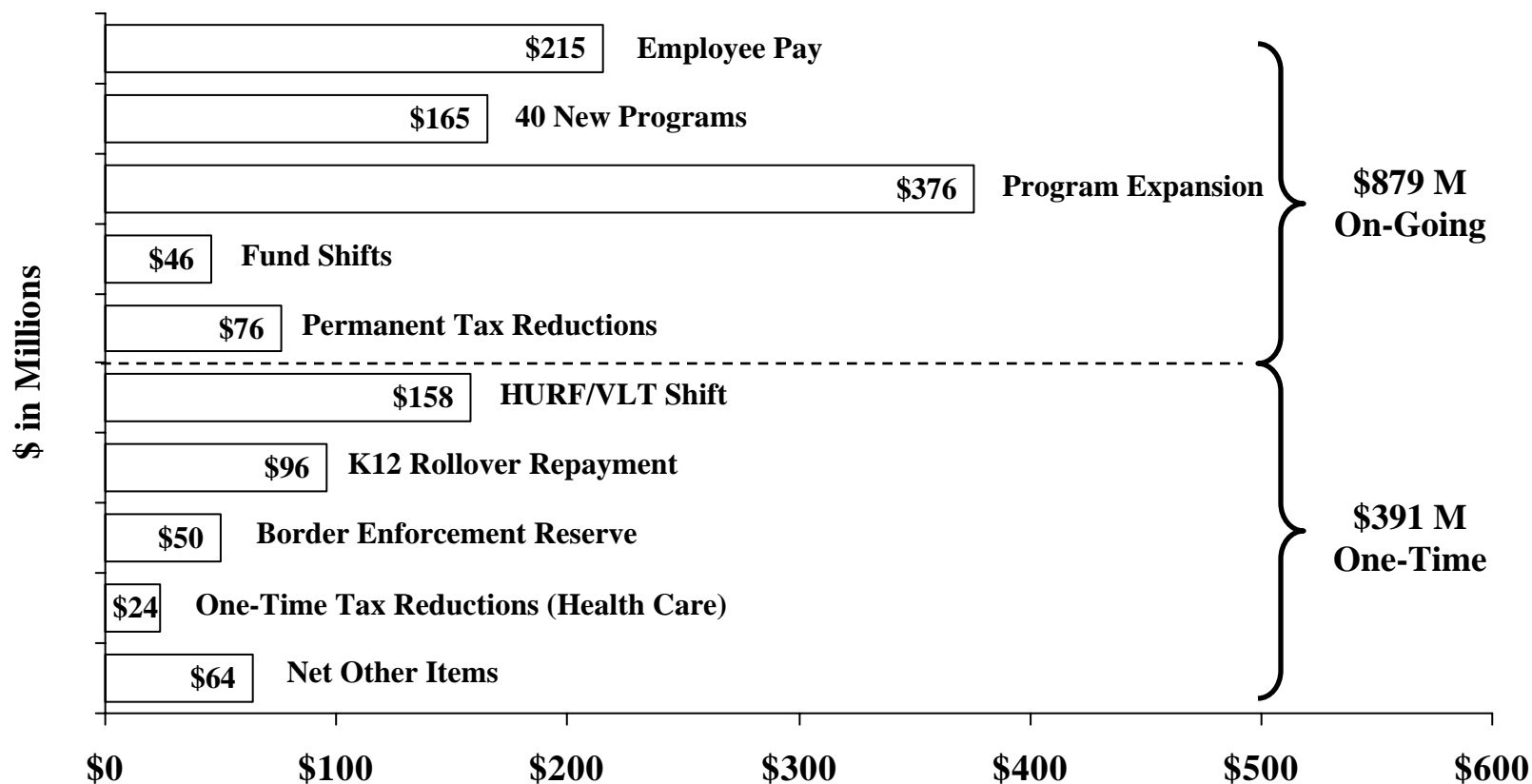
Other - \$5 M

Net New Available \$1,454 M ← **\$850 M Available** → **Net New Spending \$604 M**

While JLBC Baseline Has \$850 M in Net Available Resources, Executive Has \$1.27 B to Allocate

- Executive has higher revenue growth \$180
 - '06, JLBC 12.3% vs. Exec 13.0%
 - '07, JLBC 7.0% vs. Exec 7.5%
- Executive deposits less into BSF 269
 - JLBC adds \$450 M, for a total balance of \$640 M (7%)
 - Exec adds \$180 M, for a total balance of \$347 M (3.8%)
- Executive has higher caseload (51)
 - Spread throughout ADE, Title 19, ADC, others
- Other technical adjustments 20

Executive Allocates \$879 M of \$1.27 B to On-Going Initiatives



Executive Budget Increases General Fund Spending by \$1.9 Billion, or 22.6%

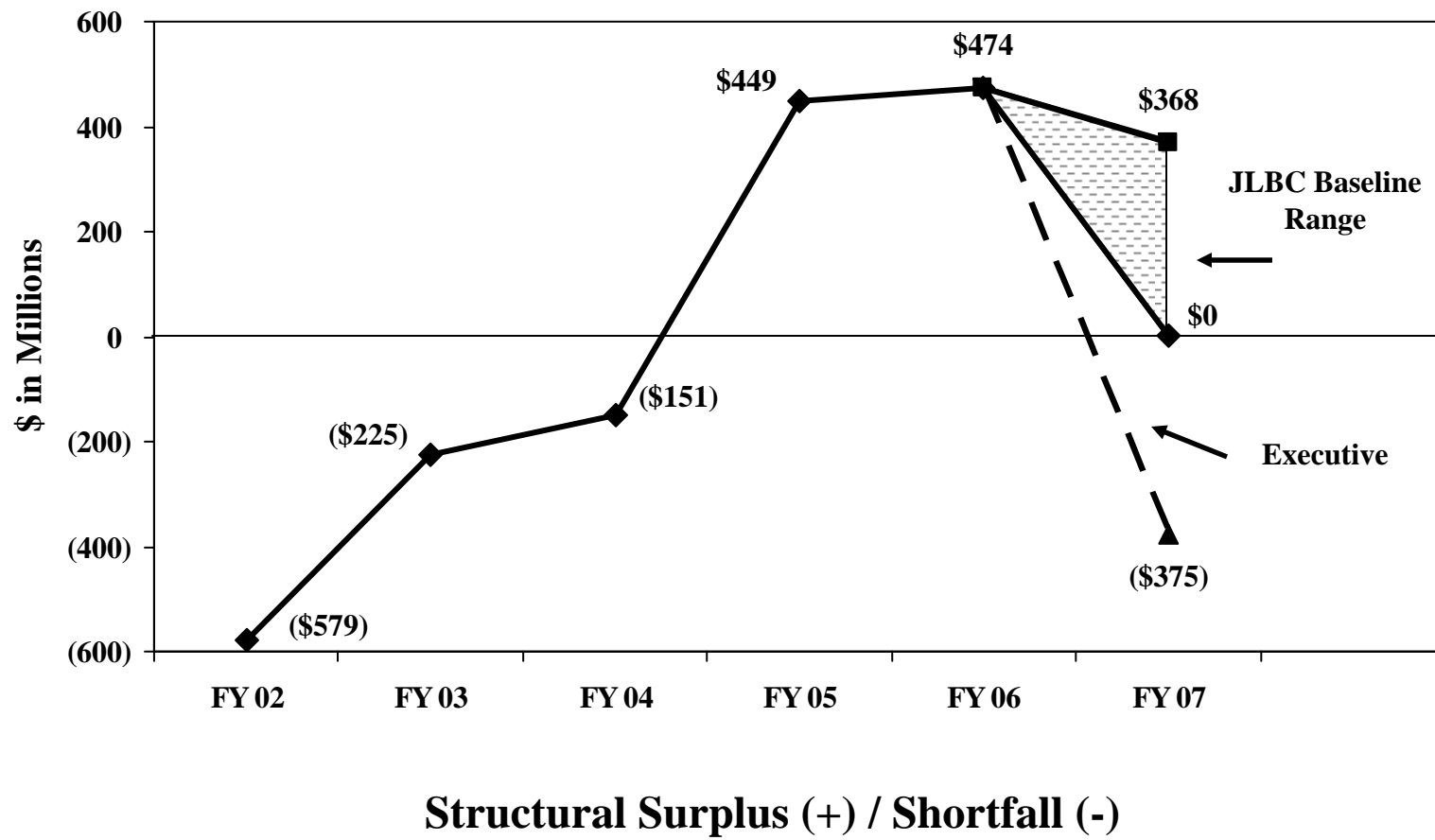
Baseline Formula \$682 M	8.2%	On-Going: \$1.49 B 17.9%
New Programs and Expansions \$541 M	6.5%	
Employee Pay - \$215 M	2.6%	
Fund Shifts - \$46 M	0.6%	
BSF Deposit - \$180 M	2.2%	One Time: \$484 M 5.8%
HURF Shifts - \$158 M	1.9%	
Repay K-12 Rollover - \$96 M	1.1%	
Border Fund - \$50 M	0.6%	
Net Negative Adjustments - \$(94) M	(1.1)%	(1.1)%

The Main Components of the Executive's New/Expanded Program List and State Employee Pay Proposal

<u>New and Expanded Programs</u>	<u>\$ in M</u>
• Full Day Kindergarten	115
• ADE Teacher Pay	91
• Universities	40
• Border Enforcement (+ \$50 M one-time)	38
• Corrections Health Care	30
• Health and Welfare Programs	118
• Economic Development Funds (Commerce/DEQ)	40
<u>Employee Pay</u>	
• 7.5% Across the Board (Legislature approved 6.3% average increase with performance @ 2-year cost of \$170 M)	143
• Corrections Officers	39
• Universities	28

Executive Budget Has \$375 M Structural Shortfall in FY 2007

- Structural Balance is the Difference Between Permanent Revenues and Spending
- Executive Budget Proposes On-Going Revenues of \$9.19 B and Spending of \$9.57 B



Executive Budget Requires More Details to Evaluate

More Details Needed

- Executive proposes 40 new programs, including significant commitments to Border Enforcement and \$25 M in science and technology support (Innovation Arizona) – need details to evaluate.
- Relies on \$20 M from revenue maximization – need details to evaluate.
- May overstate unspent funds (“revertments”) by \$20 M based on historical pattern.

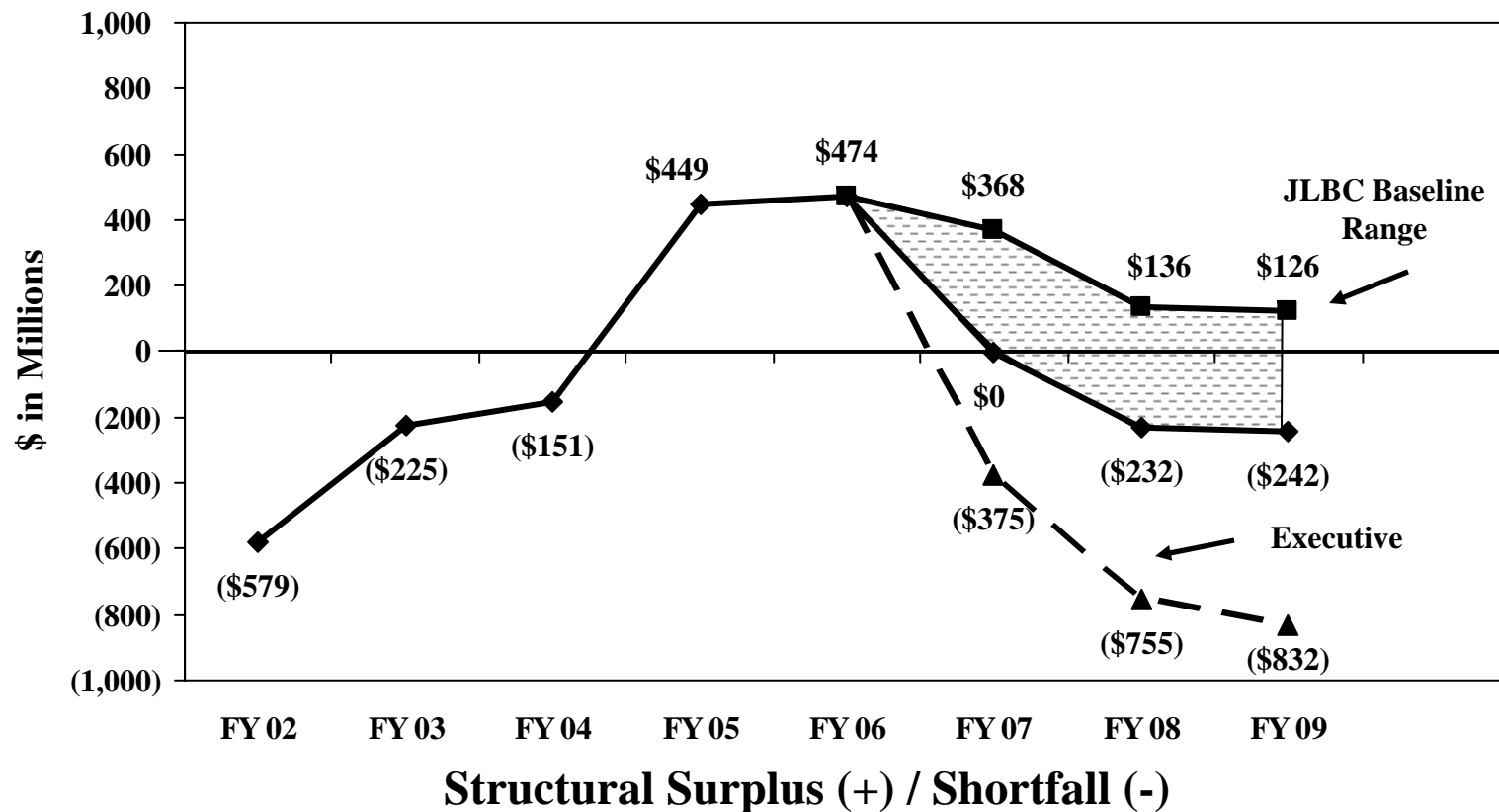
Several Programs Will Require Significant Increases in Future Years

Proposals with Impact in '08 and Beyond

- Underfunds SFB Building Renewal formula by \$82 M.
- May underfund cost of full day kindergarten by \$60 M
 - Each student receives \$4,300, but Basic State Aid generates \$5,000 per ADM.
- Capital requirements of full day kindergarten would cost another \$170 M over next 5 years.
- Phase in of Executive's Flores proposal would cost up to \$185 M.

The Long Term Structural Balance Will Depend on Our FY 2007 Decisions

--By Allocating 69% of '07 Net Available Funds to On-Going Programs,
Executive Has \$(755) M Shortfall in '08 and \$(832) M in '09



JLBC Baseline range depends on how much of net available resources are allocated to on-going vs. one-time initiatives.